



**Petroleum Federation of India**

# **Petroleum Economic Zone – Regulatory Frame work**

February 2008

A study by PetroFed in association with Member Company and Knowledge Partner

**PRICEWATERHOUSECOOPERS** 

# Table of Contents

Section		Page
1	Introduction	3
2	Option - 1	4
3	Option - 2	5

**Introduction:**

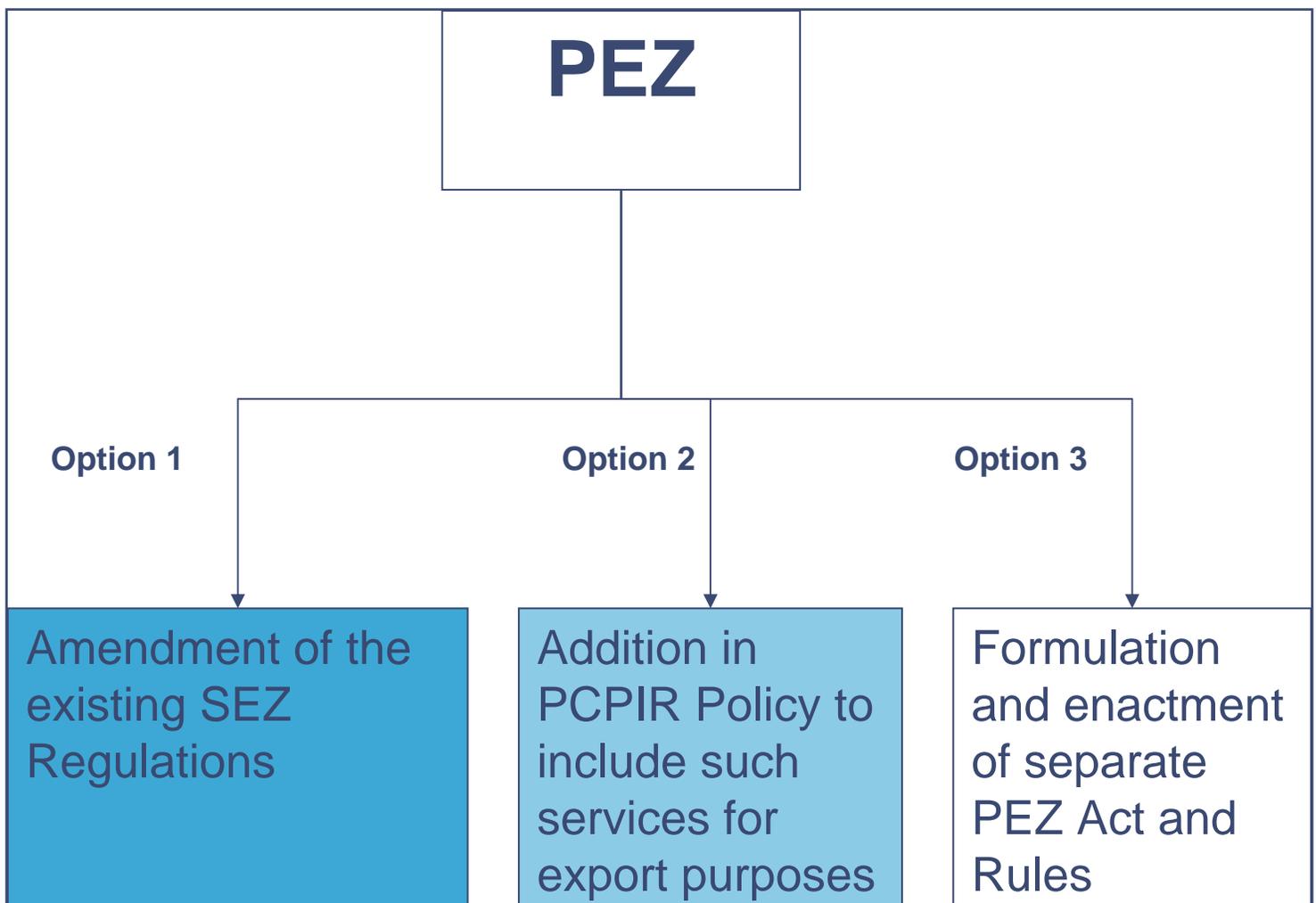
The objective of PEZ is to support and strengthen national E&P industry by bringing up related service industry within India.

The proposed PEZ is to be promoted as hub for service providers for E&P industry. Nature of service providers may vary from surveyor to installation commissioning contractor or marine support services. To make the PEZ self reliant it is also important to include manufacturing /production bases for products like drilling fluid, drill bits, offshore structures etc.

This will enable service providers to cater to all services' needs.

The quantum of business in Indian shore may not be adequate enough to attract pioneers to set up base in India. The incentives and policies should be drafted to out shine other options available around India like other Asian countries or Middle East.

Three options are proposed to implement PEZ policy in India. The regulatory framework for option 1 and 2 are further analysed here.



## Amendment of the existing SEZ Regulations

### Definition under the Act

Under the definition of services as per the SEZ Act Section 2 (z)(iii) services means such tradable services which earn foreign exchange.

In case of rendering of services in the DTA, the unit may not earn foreign exchange and thus the services may not meet the above criteria and hence may not be permitted. Hence, the definition needs to be amended in order to enable units to render E& P services against INR.

### Inclusion of E&P services

The SEZ Act and Rules thereto do not include E&P services in the Rule 76 of SEZ Rules. Therefore, the definition of services in the SEZ Rules needs to be amended to include the services required for E&P industry and specially the exploration related services.

### Services rendered “on site” outside SEZ

The proposed units (offices or facilities) in the SEZ would invariably render services outside the boundaries of the SEZ, often at the oilfields. The SEZ Rules only gives dispensation to export of software for providing consulting services “on site” abroad subject to submission of details of the contract or purchase order and foreign exchange remitted and the person deputed abroad (Rule 46 (3)(ii)). Similar dispensation may be given to E&P services as well.

### Free-of- cost consumables and raw material

The proposed unit would be expected to render services to overseas exploration fields as well. Rule 18 clause 6 (a) provides that raw materials required for rendering services would be provided by the overseas client free-of-cost. This may not be practical and feasible in case of E& P services. This clause may be required to be amended suitably in view of the proposed services.

### Temporary removals to the DTA

Rule 50 of the SEZ rules provides for certain category of goods which may be removed to the DTA without payment of duty. This list needs to be amended in order to include equipments which are required for providing E&P services.

## Addition in PCPIR policy

### “Anchor Tenant” in PCPIR policy Resolution

The PCPIR policy resolution suggests that each “Each PCPIR would have a refinery/ petrochemical feedstock company as an anchor tenant”. The proposed services hub is remotely associated with downstream segment. Rather, the services hub is directly linked to exploration, development and production (EDP) activities or precisely upstream segment. This may deter developers or service providers to introduce PEZ as/in a PCPIR. If at all, to match the need of PCPIR and PEZ the PCPIR has to have a coastal refinery /feedstock company as the anchor tenant where the anchor tenant will have little or no forward/backward linkages with the PEZ. However, this argument is valid if an exclusive EDP services hub is set up using PCPIR policy.

### Units in PCPIR

The units under PCPIR (Para 34) have to be chemical or related. EDP services e.g. survey, cementing or well management, etc., are arguably not related to chemical industry. If PCPIR policy has to provide support for PEZ, the policy document may also include EDP and related upstream goods and services industries.

*Note: The PCPIR policy is yet to be introduced. Above mentioned observations/suggestions are made on PCPIR Policy Resolution.*

